

Munich, 08 August 2018

Media Information

Munich Re generates profit of €728m in second quarter

Joachim Wenning, Chairman of the Board of Management: “With a half-year profit of €1.6bn, we are most certainly on track to reach our profit target of €2.1–2.5bn for the year as a whole. We also made progress with the implementation of our strategy: Munich Re is becoming more profitable, more digital and leaner.”

- Q2 result of €728m (733m) at previous-year level – despite high man-made major losses
- Profit for the first half-year (Q1–2) up by 20.5% to €1,555m (1,290m)
- ERGO contributed €108m to the Q2 result and €185m to the half-year result
- Following good performance, combined ratio of 96% rather than 97% expected for ERGO International
- Life and health reinsurance with a very good technical result¹ of €176m in Q2
- The treaty renewals at 1 July once again brought a slight increase in prices of 0.9% and a significant expansion of business to around €3.3bn (+42%)

Summary of the results for Q2

The operating result was down year on year to €997m (1,156m). The other non-operating result improved to –€151m (–264m); of which €41m (–162m) was attributable to the currency translation result. Taxes on income totalled €68m (108m). At €26,899m, equity was lower than at the beginning of the year (28,198m), since the good half-year result and positive currency translation effects were more than offset by the dividend payment, share buy-backs and lower unrealised gains due to developments in the capital markets.

¹ Including the result from the part of the business that is not posted in the technical result as a consequence of non-significant risk transfer.

Gross premiums written declined by 5.2% to €11,188m (11,800m). If exchange rates had remained the same, premium volume would have fallen by 1.2% year on year.

In Q2, the annualised return on risk-adjusted capital (RORAC) amounted to 11.6%, and the return on overall equity (RoE) totalled 10.8%. In the first six months of 2018, the annualised return on risk-adjusted capital (RORAC) amounted to 12.4%, and the return on overall equity (RoE) totalled 11.3%.

At approx. 250%, the solvency ratio at the end of Q2 was higher than at the beginning of the year (244%).

Key figures (IFRS) for the Group² (in €m unless otherwise indicated)								
	Q2 2018	Q2 2017	Change		Q1-2 2018	Q1-2 2017	Change	
			Absolute	in %			Absolute	in %
Gross premiums written	11,188	11,800	-612	-5.2	24,313	24,725	-412	-1.7
Net earned premiums	10,956	11,771	-815	-6.9	22,210	23,614	-1,403	-5.9
Net expenses for claims and benefits	-8,875	-9,509	634	6.7	-17,306	-19,686	2,380	12.1
Technical result	569	740	-170	-23.0	1,589	1,402	187	13.4
Investment result	1,759	1,889	-131	-6.9	3,554	4,040	-485	-12.0
Non-technical result	428	417	12	2.8	692	707	-15	-2.2
Operating result	997	1,156	-159	-13.7	2,281	2,108	172	8.2
Net finance costs	-50	-52	2	3.4	-101	-106	5	4.9
Taxes on income	-68	-108	40	37.0	-280	-295	16	5.3
Consolidated result	728	733	-5	-0.6	1,555	1,290	265	20.5
Earnings per share in €	4.84	4.71	0.13	2.8	10.34	8.26	2,08	25,2
	30.6.2018	31.12.2017	absolute	in %				
Investments (excluding insurance-related investments)	217,546	217,562	-16	0.0				
Equity	26,899	28,198	-1,299	-4.6				
Staff	41,939	42,410	-471	-1,1				

Reinsurance: Result of €620m

The reinsurance field of business contributed €620m (629m) to the consolidated result in Q2. The operating result amounted to €701m (896m). Restructuring expenses had an impact of -€48m on the other non-operating result. Gross premiums written were down by 9.5% to €6,932m (7,659m); a significant decrease in premium volume in life and

² Previous year's figures adjusted owing to IAS 8.

health reinsurance could only partially be offset by premium growth in property-casualty reinsurance.

Life and health reinsurance business saw a year-on-year increase in profit to €285m (112m). Premium income dropped to €2,309m (3,436m) owing to terminations and the restructuring of large-volume treaties. The technical result, including the result from the part of business that is not posted in the technical result as a consequence of non-significant risk transfer, amounted to €176m (77m) in Q2 and €331m (234m) in the first half of the year. Munich Re is thus most certainly on track to reach the envisaged target of at least €475m for the year as a whole.

Property-casualty reinsurance contributed €335m (517m) in Q2. The decline is mainly attributable to a significant increase in man-made major losses and higher basic losses. Despite negative currency translation effects, premium volume saw an appreciable increase to €4,623m (4,223m) thanks to organic growth. The combined ratio was 102.0% (93.9%) of net earned premiums in Q2. At 95.5% (95.5%), the figure for the first half of the year remained at a good level and was right on track to reach the envisaged figure of 97% for the year as a whole.

Overall expenditure for major losses of over €10m each was €605m (253m), which is equivalent to 13.3% of net earned premium and thus above the average expected figure of 12%. Man-made major losses amounted to €501m (187m), with the most expensive individual loss by far resulting from structural damage to a hydroelectric power station in Colombia. Major losses from natural catastrophes totalled €104m (66m).

As claims notifications for basic losses from prior years remained appreciably below the expected level overall, Munich Re was able to release reserves in the amount of around €200m (after adjustments for commissions), corresponding to 4.4 percentage points of net earned premiums. For the first half-year, Munich Re thus released reserves totalling around €380m, or approximately 4.3% of net earned premiums. Munich Re still aims to set the amount of provisions for newly emerging claims at the very top end of the estimation range, so that profits from the release of a portion of these reserves are possible at a later stage.

In the renewals at 1 July 2018, the developments that had begun to be observed in previous renewals continued, with prices increasing in the markets affected by natural catastrophes (particularly in the Caribbean), but otherwise remaining stable given the still-high capacity levels in the markets. The price increase for the July renewals amounted to 0.9% overall, excluding the effect from higher interest rates. Premium volume

was up by a significant 42% to about €3.3bn. The strong increase was chiefly attributable to an attractive large-volume treaty in Australia, and profitable growth of reinsurance quota share business in the USA.

At 1 July 2018, a volume of around €2.3bn was up for renewal at Munich Re. About 27% of this volume was from North America, 15% from Latin America, and another 14% from Australia.

Key reinsurance figures								
(in €m unless otherwise indicated)								
Reinsurance	Q2 2018	Q2 2017	Change		Q1-2 2018	Q1-2 2017	Change	
			Absolute	in %			Absolute	in %
Gross premiums written	6,932	7,659	-727	-9.5	15,115	15,705	-591	-3.8
Technical result	340	602	-262	-43.5	1,228	1,133	95	8.4
Non-technical result	361	294	67	22.7	531	446	86	19.3
Operating result	701	896	-195	-21.7	1,760	1,579	181	11.5
Result	620	629	-9	-1.4	1,370	1,095	275	25.1
Reinsurance Life and health								
(in €m unless otherwise indicated)								
Reinsurance Life and health	Q2 2018	Q2 2017	Change		Q1-2 2018	Q1-2 2017	Change	
			Absolute	in %			Absolute	in %
Gross premiums written	2,309	3,436	-1,127	-32.8	5,174	6,924	-1,749	-25.3
Technical result	156	64	92	143.2	296	209	87	41.7
Non-technical result	167	112	55	49.5	249	159	90	56.2
Operating result	323	176	147	83.7	545	368	177	48.0
Result	285	112	174	155.6	444	237	207	87.3
Property-casualty reinsurance								
(in €m unless otherwise indicated)								
Property-casualty reinsurance	Q2 2018	Q2 2017	Change		Q1-2 2018	Q1-2 2017	Change	
			Absolute	in %			Absolute	in %
Gross premiums written	4,623	4,223	400	9.5	9,940	8,781	1,159	13.2
Combined ratio in %	102.0	93.9	8.1		95.5	95.5	0.0	
Technical result	184	537	-353	-65.8	933	925	8	0.9
Non-technical result	194	182	11	6.3	283	286	-4	-1.3
Operating result	378	720	-342	-47.5	1,215	1,211	4	0.4
Result	335	517	-183	-35.3	925	858	68	7.9

ERGO: Result of €108m

In the ERGO field of business, Munich Re generated a profit of €108m (104m) in Q2, and €185m (195m) for the period from January to the end of June. The profit posted in the ERGO Property-casualty Germany segment is roughly at the same level as last year. The result for ERGO Life and Health Germany declined owing to a one-off tax effect and lower realised gains on investments to finance the additional interest reserve.

This decline was more than offset by a strong increase in the result in the ERGO International segment, which was attributable to good operating performance, particularly in Poland, and income from the sale of D.A.S. Switzerland. The operating result thus increased to €296m (260m).

The combined ratio developed very pleasingly. In the Property-casualty Germany segment, it improved to 90.3% (92.7%) in Q2, and amounted to 95.6% (95.8%) for the first half of the year. The combined ratio for the International segment improved to 95.6% (98.7%) in Q2, and totalled 95.4% (97.5%) for the first six months.

Total premium income across all lines of business rose by 2.0% to €4,534m (4,446m) in Q2 2018, and gross premiums written were up by 2.8% to €4,256m (4,141m).

Key ERGO figures³								
(in €m unless otherwise indicated)								
	Q2 2018	Q2 2017	Change		Q1-2 2018	Q1-2 2017	Change	
			Absolute	in %			Absolute	in %
Gross premiums written	4,256	4,141	114	2.8	9,199	9,020	179	2.0
Technical result	229	138	91	66.0	360	268	92	34.5
Non-technical result	67	123	-55	-45.1	160	261	-101	-38.7
Operating result	296	260	36	13.8	521	529	-9	-1.7
Result	108	104	4	4.2	185	195	-10	-4.9
ERGO Life and Health Germany								
	Q2 2018	Q2 2017	Change		Q1-2 2018	Q1-2 2017	Change	
			Absolute	in %			Absolute	in %
Gross premiums written	2,312	2,244	68	3.0	4,633	4,568	65	1.4
Technical result	67	85	-18	-20.8	158	155	3	2.0
Non-technical result	-1	71	-71	-	59	174	-114	-65.8
Operating result	67	156	-89	-57.2	218	329	-111	-33.8
Result	-15	50	-65	-	21	113	-91	-81.1
ERGO Property-casualty Germany								
	Q2 2018	Q2 2017	Change		Q1-2 2018	Q1-2 2017	Change	
			Absolute	in %			Absolute	in %
Gross premiums written	681	657	24	3.7	1,947	1,897	50	2.6
Combined ratio in %	90.3	92.7	-2.4		95.6	95.8	-0.2	
Technical result	98	74	24	31.9	92	90	2	2.0
Non-technical result	27	25	2	8.7	47	53	-6	-11.6
Operating result	125	99	26	26.1	139	143	-4	-3.1
Result	57	48	9	17.9	57	61	-3	-5.7

³ Previous year's figures adjusted owing to IAS 8.

ERGO International	Q2 2018	Q2 2017	Change		Q1-2 2018	Q1-2 2017	Change	
			Absolute	in %			Absolute	in %
Gross premiums written	1,262	1,240	22	1.8	2,619	2,555	64	2.5
Combined ratio in %	95.6	98.7	-3.1		95.4	97.5	-2.1	
Technical result	63	-22	85	–	111	23	88	379.6
Non-technical result	41	27	14	52.0	54	34	19	57.2
Operating result	105	5	99	>1,000.0	164	57	107	187.3
Result	66	5	61	>1,000.0	107	22	85	392.6

Investments: Investment result of €1,759m

The Group's investment result (excluding insurance-related investments) fell to €1,759m (1,889m). Regular income from investments rose to €1,836m (1,720m). The net balance of derivatives improved to –€53m (–87m). The balance of gains and losses on disposals excluding derivatives fell to €282m (432m). Munich Re also posted higher net year-on-year write-downs of €140m (49m) on non-derivative investments during the past quarter.

The investment result represents a return of 3.1% on the average market value of the portfolio; the running yield was 3.2%, and the reinvestment yield was 2.3%. The equity-backing ratio (including equity-linked derivatives) decreased marginally to 6.2% as at 30 June 2018 (31 December 2017: 6.7%).

With a carrying amount of €217,546m (market value of €231,150m), total investments (excluding insurance-related investments) as at 30 June 2018 remained nearly unchanged compared with the year-end 2017 figure of €217,562m (€231,885m at market value).

The Group's asset manager is MEAG, whose assets under management as at 30 June 2018 included not only Group investments, but also a volume of €16.0bn (15.9bn) for third parties.

Outlook for 2018: Profit guidance of €2.1–2.5bn

Given its good performance in the first half of the year, Munich Re has lowered its projection for ERGO International's combined ratio for the full year by one percentage point to 96%.

Besides that, expectations for 2018 have not changed in comparison with the figures given in the Quarterly Statement for Q1 2018 that was published in May. Munich Re is still expecting to post gross premiums written of €46–49bn for 2018, and is not changing its forecast consolidated result in the range of €2.1–2.5bn.

Münchener Rückversicherungs-Gesellschaft

Aktiengesellschaft in München
Media Relations
Königinstraße 107, 80802 München
Letters: 80791 München
www.munichre.com
Twitter: @MunichRe

Note for the editorial staff**For further questions please contact:**

Group Media Relations: Jörg Allgäuer
Tel.: +49 (89) 3891-8202
Mobile: +49 (0) 171 8384838
Fax: +49 (89) 3891-78202
jallgaeuer@munichre.com

Media Relations Asia Pacific: Uta Apel
Tel.: +65-63180762
Mobil: +65 (8109) 3034
uapel@munichre.com

Media Relations North America: Sharon Cooper
Tel.: +1 (609) 243-8821
Mobile: +1 (845) 544-6645
Fax.: +1 (609) 951-8206
scooper@munichreamerica.com

Munich Re

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